ATTACHMENT B – 2005–2008 VERMONT INCENTIVE REGULATION PLAN FOR VERIZON

Effective July 1, 2005

This Vermont Incentive Regulation Plan ("Plan") is established pursuant to 30 V.S.A. § 226b. The Plan establishes the method by which the Public Service Board ("Board") will regulate all intrastate telecommunications products and services offered in Vermont by Verizon New England Inc., d/b/a Verizon-Vermont ("Verizon" or the "Company"), during the term of the Plan.

I. Term of the Plan

A. The Plan shall have a term of three years, commencing on July 1, 2005, and terminating on June 30, 2008.

B. Verizon shall confer with the Department of Public Service ("Department") regarding an extension of the Plan or a successor plan at least one year prior to the conclusion of the Plan. Subsequent to conferring and consulting with the Department, but not less than ten months prior to the conclusion of this Plan, Verizon shall convey to the Board and Department the Company's intention regarding an extension of this Plan for an additional period or a proposal for a successor plan, if any. Verizon may request the Board to approve an extension of the Plan until the Board has approved a successor plan, but in no event may the Plan, as extended, continue in effect beyond the seven-year deadline set out in 30 V.S.A. § 226b(j).

II. Changes in pricing, terms, and conditions of Vermont-regulated intrastate telecommunications products and services

A. Existing regulated intrastate telecommunications products and services.

Existing regulated intrastate telecommunications products and services are any and all products and services that have approved intrastate tariffs on the commencement date of the Plan. Existing special contracts are governed by their own terms and those terms are not modified by this Plan.

1. The Company will not propose any price increases for existing regulated intrastate telecommunications products or services during the life of the Plan except:

   a. As necessary to implement a rate adjustment arising from an exogenous event that produces a change as described in and subject to paragraph II.A.2., below.

   b. If the Company or Department proposes, and the Board approves, a revenue-neutral restructuring of a regulated intrastate telecommunications product or service.

   c. Services for which the Board has deemed a competitive market exists pursuant to 30 V.S.A. § 227a(a) shall not be subject to the Plan.

2. Exogenous Event

a. An Exogenous Event is one that is beyond the control of Verizon and that produces a positive or negative change in revenues or costs of regulated Vermont intrastate operations in excess of $1,000,000 in a single year. Changes due to changes in the economy, the effects of competition, and inflation do not constitute Exogenous Events. For purposes of the Plan, an Exogenous Event shall be limited to:

i. Changes in tax laws that are unique to the telecommunications industry;

ii. Changes in Generally Accepted Accounting Principles that apply specifically to telecommunications or changes in the Federal Communications Commission ("FCC") Uniform System of Accounts;

iii. Any FCC rule changes pertaining to jurisdictional separations;

iv. Regulatory, judicial, or legislative changes affecting the telecommunications industry, including rules and orders that are necessary to implement such changes.

b. The Department, the Board, or Verizon may propose a change in prices to offset the economic change resulting from an exogenous event. If the Department or Verizon proposes a change due to an Exogenous Event, the party proposing the change bears the burden of proof with respect to the change.

c. Price changes proposed as a result of an Exogenous Event shall be made to services on a cost causative basis to the extent reasonably practicable. Assignment of costs among existing services, new services, and unregulated services shall be made on a cost-causative basis to the extent reasonably practicable.

d. Price changes resulting from Exogenous Events must be approved by the Board.

3. Existing services, unless declared competitive under paragraph II.D.2., below, shall not be subject to the exemptions provided by paragraph II.D. of this Plan. This includes, but is not limited to, the right of the Company to change the terms and conditions, including withdrawal, of a product or service.

B. New products and services

1. New products and services include:

a. regulated intrastate telecommunications products or services not now offered under tariff in Vermont;

b. regulated intrastate telecommunications products or services introduced during and designated as "new products and services" under the Incentive Regulation Plan approved by the Board in Dockets 6167/6189;

c. special or customer specific contracts offered to an individual or groups of customers executed after the effective date of the Plan; or

d. any combination of new or existing products or services.

2. Pricing terms and conditions of new products and services shall be at the sole discretion of Verizon, subject only to meeting any relevant price floor obligation established by the Board and complying with the requirements of Dockets 5713 and 6077.

3. Pricing of new products and services may not unjustly discriminate among customers.

4. New products or services are not subject to the pricing restrictions, nor subject to price changes brought about by exogenous events, as described in Paragraph II.A., above.

5. Special contracts and other Section 229 arrangements must be limited to a term no greater than the later of three years from the date of commencement or until the end of this Plan.[1]

6. Tariffs for new products and services shall be effective ten (10) business days after filing (except that a decrease in rates may be made on five-days' notice), but shall not be subject to suspension by the Board under 30 V.S.A. §§ 225 and 226. At the time Verizon files a new service, the Company shall submit information sufficient to demonstrate that the new service is consistent with any relevant price floor requirement. Verizon shall file all special contracts (as described in 30 V.S.A. § 229) prior to their commencement.

7. At the time a tariff is filed for a new product or service, or at least 30 days prior to the time the Company introduces or modifies a service or implements a technology change that may affect the privacy interests of consumers, the Company will file a statement of foreseeable impacts on customer privacy expectations. In the event that the statement identifies any potential privacy impact, the statement will describe any options the Company proposes to make available to customers to address privacy concerns. After review of this statement, the Board may open a proceeding to address the privacy issues and,

[1] In special cases, such as Centrex services, where Verizon and its customer both believe a longer time period to be necessary, they may seek prior approval from this Board. In such cases, the well-established procedures of Section 229 will apply.

on its conclusion, issue appropriate orders affecting the service. The service will remain in effect pending the Board's decision.

8. If Verizon bundles intrastate telecommunications services with interstate or unregulated services, it shall provide a plan to allocate reasonable revenue between the regulated intrastate service and other services. The board retains the authority to review the tariff filing to determine whether it is just and reasonable.

C. Promotional Offerings

The Company may offer products and services on a promotional basis. These offerings may be limited as to duration, dates, and times of the offerings, customers eligible to receive the offerings, and/or locations where offerings are made. Promotional offerings must be limited in term to 180 days. For purposes of the Plan, promotional offerings available for a term greater than 90 days must be available for resale. Pricing terms and conditions of promotional offerings shall be at the sole discretion of Verizon subject only to meeting any relevant price floor obligation established by the Board.

D. Exemptions

1. Sections 225, 226, 227, and 229 of Title 30 shall not apply, except as specified herein and in the Order in this Docket. Verizon shall continue to file tariffs during the term of the Plan. Section 218(a) shall not apply to new services and special contracts, except as specified herein and in the Order in this Docket.

2. Services for which the Board deems a competitive market exists, pursuant to 30 V.S.A. § 227a(a), shall not be subject to this Plan.

3. Services for which the Board determines the Company to be a non-dominant provider of telecommunications service throughout its Vermont service area, pursuant to 30 V.S.A. § 227c, shall not be subject to this Plan.

E. Revenue Adjustments and Network Investment Incentive Offsets:

1. Prices of the Company's existing services shall, during the Plan, be subject to adjustment, upon order of the Board, in accordance with Appendix 1 attached hereto.

III. <u>Service Quality</u>

A. The Service Quality Plan, attached hereto as Attachment C, establishes the method by which the Board will monitor and evaluate Verizon's service quality commitments to its retail customers over the term of the Plan.

B. Verizon shall continue to comply with service quality standards, consumer protection standards, and privacy protections adopted by the Board in Docket 5903 (and as may be subsequently modified or incorporated into rules), except that the terms and conditions of the Service Quality Plan will supersede any substantially similar retail service quality requirements, performance areas, baseline standards, and reporting methods required by Docket 5903.

C. Verizon shall comply with any wholesale service quality standards adopted in Docket 6255 or successor proceedings.

IV. Infrastructure Investment

During the term of the Plan, Verizon shall maintain annual infrastructure investment levels of at least $40 million.

V. Modifications

Verizon or the Department may petition the Board to modify any of the terms or conditions of the Plan: (i) to reflect the impact of relevant provisions or decisions enacted or issued by federal or state legislative, judicial or administrative bodies subsequent to the Board's approval of the Plan; or (ii) to seek a revised form of regulation of the Company's operations based upon changes in market conditions. In any proceeding, the burden shall be on the petitioner to establish a reasonable basis for the modification. A request for modification under this section shall be limited to events that are both material and were not reasonably foreseeable.

Appendix 1 to 2005–2008 Plan

1. Verizon shall reduce its rates to achieve an annual revenue reduction in the following amounts. Each rate reduction, after implemented, shall remain in effect throughout the term of the Plan, so that the rate reductions set out below are cumulative.

Effective Date of Rate Adjustment	Annual Amount
September 19, 2005	$8,181,107[2]
July 1, 2006	$ 1.26 million
July 1, 2007	$ 1.80 million
July 1, 2008	$ 1.29 million

2. Unless Verizon proposes, and the Board approves, a Network Investment Incentive Offset ("Offset"), Verizon shall apply the revenue reductions as follow:

   a. For 2005, Verizon shall reduce Business Basic Exchange Service and intralata Message Toll Service. The revenue reduction shall be equally divided between these two services.

   b. For 2006, Verizon shall reduce charges for Special Access Service, Superpath 1.544 Mbps Service, and direct trunked transport elements of Switched Access Service.

   c. For 2007,Verizon shall reduce either Message Toll Service or Residential Basic Exchange Service.

   d. For 2008, Verizon shall reduce charges for Residential Basic Exchange Service.

3. Filing Requirements:

   a. Unless otherwise directed and approved by the Board, all revenue adjustments shall be implemented on the effective dates on a service-rendered, as opposed to bills-rendered, basis.

   b. Absent prior approval of the Board or a stay of implementation, if the Board has not approved all or a portion of any Offset requested, the Company shall file tariffs necessary to implement, not later than the anniversary of the Plan (i.e., July 1 of each year), the Revenue Adjustment as set forth in Paragraphs 1 and 2.

   c. The Company shall provide to the Board and Department the rate element prices, in-service quantities, and other relevant information necessary to calculate the annual revenue effect of scheduled revenue adjustments, so long as those changes are

[2] This figure assumes that Verizon elects to separate the Yellow Pages from the white pages as specified in the Proposed Order. If Verizon chooses to continue publishing and distributing the yellow and white directories together, the annual rate reductions increase by $7 million.

consistent with the rate adjustment priorities described in the preceding paragraph. Upon request, the Company shall provide to the Board and Department information regarding the cost of providing services subject to the rate reductions.

d. If the Company wishes to propose rate or service structure changes to implement a revenue reduction, it shall file its proposal with the Board and Department not later than 60 days prior to the date on which it must reduce its revenues.

4. In lieu of implementing some or all of the revenue reductions required under Paragraphs 1 and 2, above, Verizon may propose an Offset based upon Network Diversity Enabling ("Network Diversity") expenditures and Broadband Service Enabling ("Broadband") capital expenditures.

   a. Network Diversity expenditures shall only qualify after Verizon has extended Broadband services to 90 percent of its customers. Capital expenditures that do not fall into either category — Network Diversity or Broadband — are not eligible for Offsets.

   b. The effect of an Offset is to defer the required rate reduction until the next anniversary of the Plan. Rate reductions that have been deferred may be further deferred by additional Offsets.

5. Subject to other qualifications described below, Offsets shall be based upon expenditures that occur during the twelve months ending on the March 31 prior to the time a rate reduction is required under Paragraph 1. For the rate reductions required effective September 19, 2005, Verizon may propose (by October 19, 2005) an offset based upon future expenditures. If Verizon proposes such an offset, it shall (in addition to the other requirements for requesting approval of an Offset) identify the proposed expenditures it intends to undertake and the time at which it will complete the deployment of facilities associated with those expenditures.

6. The level of capital expenditure by the Company on projects that qualify for Offsets, as well as for any other purposes, in each and any year of the Plan, shall be left to the discretion of the Company.

7. In any period, an Offset shall not exceed the amount of the rate reductions specified in Paragraph 1 (plus any deferred rate reductions).

8. Offsets are not cumulative; an Offset allowed in one year shall not carry forward and count toward any Offset allowed in the subsequent year.

9. Broadband Projects

   a. In order to qualify as Broadband expenditures, a project must:

      i. be necessary and intended for enabling the Company to provide broadband data service to an end user or an information service provider that sells an information service to end users; and

ii. not have been allocated capital, or committed to, or budgeted for, or publically announced prior to July 1, 2005; and

iii. enable the Company to offer broadband service to areas in which no other service provider offers broadband services through facilities that would not otherwise have been constructed during the term of the Plan

b. As used in this document, "Broadband" means services that provide transmission speeds equal to or in excess of 1.5 mpbs downstream and 200 kbps upstream and that are sold to the mass market (including residential consumers) at prices reasonably comparable to those prevalent in urban and suburban exchanges in Vermont.

c. In determining whether another service provider offers broadband services to a particular area, the Company may rely upon readily available information sources, e.g., reports or maps published by the Department regarding the availability of broadband service.

d. A project that enables the Company to provide broadband service to a geographic area that is unserved by other broadband service providers may qualify even if the project also makes the Company's broadband service available to consumers that presently have access to broadband service through other providers, but only if the improvements that enable the Company to serve the unserved area cannot be separated from the larger project.

e. For the purposes of applying sub-paragraph 10.a.iii., above, the extent of alternative broadband service availability will be evaluated for individual central offices or remote terminal serving areas. For example, broadband deployment to a remote terminal located within a particular exchange may qualify due to low availability from other service providers, even if the central office serving area does not qualify.

f. The capital projects that may qualify (in whole or in part) for offsets include, but are not limited to, the following:[3]

i. projects that expand interoffice transport capacity to carry projected data traffic to additional central offices, if the Company demonstrates that the expenditure was necessary to enable Broadband services covered by this Plan;

ii. installation of multiplexer nodes that connect a central office previously without access to broadband services to a diverse SONET or other physically diverse transport facility capable of transporting data;

iii. installation of DSLAMs at central offices or remote terminals;

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[3] This list is intended to be neither dispositive nor all-inclusive. We recognize that there may be other facilities or new technologies that will provide broadband services to Vermont. Verizon may seek to have these considered as Offsets if they meet the criteria set out in this Plan.

iv. installation of fiber splitters (i.e., passive nodes) and fiber that reaches the network interface device ("NID") at an end user’s premises from either a central office or remote terminal (i.e., "Fiber-to-the-Premises");

v. removal of load coils and bridged taps so as to enable lines to support broadband service;

vi. installation of DSL repeaters on long loops; and

vii. installation of wireless broadband nodes, if at least 50% of the potential subscribers to which the wireless service would be available have basic exchange service provided by Verizon and cannot presently receive another form of Verizon broadband service.

g. Expenditures on additional Asynchronous Transfer Mode switches or expansion of existing Asynchronous Transfer Mode switches do not qualify as Broadband expenditures.

10. Network Diversity Projects

a. In order to qualify as Network Diversity expenditures, a project must:

i. create physically diverse transport routes on presently non-diverse interoffice routes; and

ii. provide diversity for all voice and data traffic on the interoffice routes it services (or for that portion of traffic on a route that is not already served with a diverse facility); and

iii. not be triggered, necessary, or warranted because capacity on an interoffice route is exhausted, or is forecast to be exhausted within the next 24 months; and

iv. not be triggered, necessary, or warranted by the introduction of any new service to a central office; and

v. not be triggered, necessary, or warranted by the need to replace malfunctioning facilities or by a retirement of a class or type of obsolete equipment.

b. However, the incremental cost of transferring traffic from a properly functioning, non-exhausted, non-diverse in-service facility to a new diverse facility that added necessary capacity, replaced malfunctioning or obsolete equipment, or was necessary for the introduction of a new service may qualify as Network Diversity expenditures.

c. The Company’s portion of capital expenditures of projects that establish diverse transport between Verizon and another local exchange carrier may qualify as Network Diversity expenditures.

d. Lease payments for transport facilities owned by another carrier, that are necessary to enable network diversity may qualify as Network Diversity expenditures for as long a period as the Company continues to make the lease payments.

e. With the exception of lease payments for transport facilities that qualify as Network Diversity projects, as described above, non-capital (e.g., operating expenses) are not eligible for Offsets.

11. The plant on which the capital has been expended need not be in service at the time the Company submits its annual Offset Proposals; qualifying expenditures booked to Telephone Plant Under Construction ("TPUC") are eligible for Offsets.

12. Network Diversity project costs are eligible for Offsets at 100 cents on the dollar; e.g., a million dollars expended on a Network Diversity project is eligible for a million dollar Offset.

13. Broadband project costs are eligible for Offsets at their actual cost minus $300 per line (or line equivalent in the case of wireless projects) made broadband-qualified by the project.

14. Any costs that have been offset through this mechanism shall be treated, for the purpose of any potential, future cost-of-service review, as having been fully recovered by the Company.

15. All Offsets are subject to review and prior approval of the Board. The burden is on the Company to demonstrate that expenditures qualify as Offsets, on the basis of the criteria stated above.

16. If the Company wishes to propose an Offset, it shall file a petition with the Board, with a copy to the Department, not less than 90 days prior to the next anniversary of the Plan. The Company may seek a preliminary ruling from the Board as to whether an actual or planned expenditure will qualify as an Offset; the Board's preliminary ruling may incorporate qualifications, as appropriate.

    The petition shall include a description of each project for which an Offset is requested, including:

    a. The types and quantities of plant installed;

    b. The actual or estimated date of completion;

    c. A list (including Common Language Location Identifier) of each central office and remote terminal to which the project has enabled Network Diversity or Broadband;

    d. The location(s) or transport routes, including route-identifier codes at which plant was installed;

    e. The Company's internal name or code for the project;

f. The dollar amount of capital expended on the project, including the amounts booked by month, and the plant accounts to which amounts were booked;

g. The total number of access lines in each of the central offices or remote terminal areas served by the project;

h. In the case of Broadband projects, the number of access lines that, upon completion of the project, were qualified to provide broadband service as a result of the project.

The petition shall also include an affidavit of a senior officer of the Company affirming that the projects for which Offsets are requested meet all of the criteria set forth in this Plan and affirming that the statement of capital expenditures is true and accurate.